MULTIMEDIA UNIVERSITY STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016 SESSION

BAC1634–FINANCIAL ACCOUNTING REPORTING 1

(All sections / Groups)

7 March 2016
2.30PM – 5.30PM
(3 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 6 pages with 5 Questions only.

2. Attempt **ALL FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

QUESTION 1

Part A

After preparing a draft statement of comprehensive income for the year ended 31December 2015 and adding the year's profit (before any adjustments required by notes (i) to (iii) below) to retained earnings, the summarised trial balance of ABC Bhd as at 31December 2015 is:

	RM'000	RM'000
Equity shares of RM1 each		40,000
Retained earnings as at 31 December 2015		17,500
Proceeds of 6% loan (note (i))		30,000
Land (RM5 million) and buildings – at cost (note (ii))	55,000	
Plant and equipment – at cost (note (ii))	58,500	
Accumulated depreciation at 1 January 2015:		
Buildings		20,000
Plant and Equipment		34,500
Current assets	68,700	
Current liabilities		38,400
Deferred tax		2,500
Interest payment (note (i))	1,800	
Current tax (note (iii))		1,100
	184,000	184,000

The following notes are relevant:

i. The loan note was issued on 1 January 2015. Interest of RM1.8 million (RM30 million at 6%) was paid on 31 December 2015. The loan is redeemable on 31 December 2019 at a substantial premium which gives an effective interest rate of 9% per annum. No other repayments are due until 31 December 2019.

ii. Non-current assets:
The price of property has increased significantly in recent years and on 1 January 2015, the directors decided to revalue the land and buildings. The directors accepted the report of an independent surveyor who valued the land at RM8 million and the buildings at RM39 million on that date. The remaining life of the buildings at 1 January 2015 was 15 years. ABC Bhd does not make an annual transfer to retained profits to reflect the realisation of the revaluation gain.

Plant and equipment is depreciated at 12½% per annum using the reducing balance method. No depreciation has yet been charged on any non-current asset for the year ended 31 December 2015.

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iii. A provision of RM2.4 million is required for current income tax on the profit of the year to 31 December 2015. The balance on current tax in the trial balance is the under/over provision of tax for the previous year.

Required:

a. Prepare a schedule of adjustments required to the retained earnings of ABC Bhd as at 31 December 2015 as a result of the information in notes (i) to (iii) above.

(5 marks)

b. Prepare the statement of financial position of ABC Bhd as at 31 December 2015.

(10 marks)

Part B

X sells its head office, which cost RM10 million to Y, a bank, for RM10 million on 1 January. X has the option to repurchase the property on 31 December, four years later at RM14.64 million. X will continue to use the property as normal throughout the period and so is responsible for the maintenance and insurance. The head office was valued at transfer on 1 January at RM18 million and is expected to rise in value throughout the four year period. The effective interest rate is 10%.

Required:

Giving reasons, show how X should record the above during the first year following transfer. (5 marks)

(Total: 20 Marks)

QUESTION 2

Extracts from XYZ's financial statements for the year ended 30 April 2015 and comparatives are shown below:

Income Statement

	Year ending 30.4.2015	Year ending 30.4.2014
	RM	RM
Profit before tax	800	650
Income tax expense	(350)	(290)
Profit after tax	450	360

At 1 May 2014, XYZ has 900 million RM1 ordinary shares in issue. There had been no share issues during the year ended 30 April 2014.

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Required:

Calculate the basic EPS for the year 2015, with that for 2014 as comparatives figure, in each of the following situations:

a. No changes in shares in the year ended 30 April 2015.

(4 marks)

b. An issue of 50 million shares at full market price took place on 1 December 2014.

(4 marks)

c. A bonus issue of 1 share for every 9 held was made on 1 September 2014.

(4 marks)

d. On 1 July 2014, a rights issue took place of 1 share for every 4 held at RM2. The market value of each share immediately before this rights issue was RM2.50.

(4 marks)

e. Discuss why there is a need to disclose diluted earnings per share.

(4 marks)

(Total: 20 marks)

QUESTION 3

Part A

Explain how the standard-setting authority approaches the task of producing a standard, with particular reference to the ways in which comment or feedback from interested parties is obtained.

(4 marks)

Part B

Given below is the statement of financial position of PQR Bhd as at 31 December 2015.

Statement of Financial Position of PQR Bhd as at 31 December 2015	
	RM
Non-current assets	70,000,000
Current assets (except cash at bank)	15,000,000
Cash at bank	50,000,000
	135,000,000

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Issued share capital	
40,000,000 Ordinary shares of RM1 each	40,000,000
Share premium	4,000,000
Retained profits	50,000,000
Non-current liability	
20,000,000 6% redeemable preference shares	24,000,000
Current liabilities	17,000,000
	135,000,000

PQR redeemed all the preference shares at a premium of 20 percent on 31 December 2015. It issued 10 million ordinary shares at RM3 per share to facilitate the redemption and the balance through profits available for dividends.

Required:

You are required to prepare the journal entries to record the above transactions.

(6 marks)

Part C

a) For each of the following situation, discuss with reason whether the company has to make a provision in accordance to the MFRS 137: Provisions, contingent liabilities and contingent assets.

i. Entity A operates in the palm oil manufacturing business. Under a new legislation, the entity is required to fit smoke filters to its palm oil mills by 30 June 2016. At 31 December 2015, Entity A has not fitted the smoke filters. The costs to fit the smoke filters are estimated at RM4 million. At 31 December 2016, Entity A still has not fitted the smoke filters and therefore faces a probable fine or penalty by law.

(4 marks)

ii. A company operates profitably from a factory that it has leased under an operating lease. Annual lease rentals totaled RM120,000. During the year ended 31 December 2015, the company relocates its operations to a new factory. The lease on the old factory continues for the next four years which is up to 31 December 2018, as it cannot be cancelled and the factory cannot be re-let to another user.

(2 marks)

Continued...

For each of the following situation, explain the following events based on MFRS110 Event After the Reporting Period.

i. An entity gives warranties at the time of sale to purchasers of its products. On 31 December 2015 an entity assessed its warranty obligation as RM100,000. Immediately before the 31 December 2015 annual financial statements were authorised for issue, the entity discovered a latent defect in one of its lines of products (i.e. a defect that was not discoverable by reasonable or customary inspection). As a result of the discovery, the entity reassessed its estimate of its warranty obligation at 31 December 2015 at RM150,000.

(2 marks)

ii. On 28 February 2016 an entity's financial statements for the year ended 31 December 2015 were authorised for issue. The entity sells some products on credit to a customer before 31 December 2015. At 31 December 2015 the entity's management had no doubt about the customer's ability to pay the outstanding trade receivable of RM200,000. However, in February 2016, during the process of finalising the financial statements, the entity is informed that the customer is going into liquidation because it has significant debt, has virtually no cash inflows, and its accounting records are poorly maintained. Because of this, the trade receivables are deemed worthless.

(2 marks)

(Total: 20 Marks)

QUESTION 4

a) On 1 April 2014, Airborne Bhd acquired plant and machinery with a fair value of RM900,000 on a finance lease. The company is responsible for insuring and maintaining the asset throughout the term of the lease. The lease was for five years with the annual lease payments of RM228,000 being paid in advance on 1 April each year. The interest rate implicit in the lease was 13.44%. The first payment was also made on 1 April 2014.

Required:

Show how this lease would be presented in the statement of comprehensive income of Airborne Bhd for the year ended 31 December 2015 and the statement of financial position as at that date based on MFRS117: Leases.

(8 marks)

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b) On 1 January 2016, Quantum Bhd owned an asset with a net book of RM100,000. The fair value of the asset on this date was RM120,000. On this date, Quantum Bhd sold the asset to Granite Bhd for RM150,000 and immediately leased back the asset for a period of five years. The leaseback is an operating lease.

Required:

Explain how Quantum Bhd shall account for the sale and leaseback transaction and show the journal entries required.

(7 marks)

c) Explain **FIVE** criteria in determining the finance lease according to MFRS117: Leases. (5 marks)

(Total: 20 Marks)

QUESTION 5

Sierra Gold Bhd purchases a land and building at a cost of RM10,000,000 in 2012. The land portion accounts for RM2,000,000 of the purchase price. The building is depreciated on a straight line basis over 50 years, charging a full year's depreciation in the year of purchases and none in the year of disposal.

On 1 January 2014, the land and building is revalued upward. An independent professional valuer places a valuation of RM18,000,000 on the existing use basis, of which RM4,000,000 is attributable to the land portion. The surplus is incorporated in the accounts.

In 2016, the property is sold for RM20,000,000 cash. Ignore deferred tax consideration.

Required:

a) Calculate the surplus arising on the revaluation of the property in 2014 and show the journal entry to incorporate the surplus.

(6 marks)

b) Calculate the gain or loss arising on disposal of the property in 2016 and show the journal entries to record the disposal.

(9 marks)

c) Explain how an item of property, plant and equipment that qualifies for recognition as an asset shall be measured according to MFRS116: Property, Plant and Equipment when it is first recognized in the statement of financial position.

(5 marks)

(Total: 20 Marks)

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